CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 30, 2007

H.R. 1227
Gulf Coast Hurricane Housing Recovery Act of 2007

As passed by the House of Representatives on March 21, 2007

SUMMARY

H.R. 1227 would authorize various forms of housing assistance for the areas of the Gulf Coast affected by hurricanes in 2005. The act would authorize funding for the repair, rehabilitation and development of public housing operated by the Housing Authority of New Orleans (HANO) and authorize new tenant and project-based housing vouchers. In addition, the act would authorize the appropriation of funds to allow the Federal Housing Administration (FHA) to pay some additional mortgage insurance claims associated with certain properties either damaged or destroyed by Hurricanes Katrina or Rita. CBO estimates that the act would authorize the appropriation of about $3 billion over the 2008-2012 period. Assuming the appropriation of the estimated amounts, implementing H.R. 1227 would result in additional outlays of $2.8 billion over the same period.

H.R 1227 would also accelerate expenditures for some funds that have been previously appropriated, increasing direct spending by $456 million in 2008, and by about $1.3 billion over the 2008-2010 period. That increase would be offset by a reduction in outlays in 2011 and 2012 for no net effect over the 2008-2012 period.

H.R. 1227 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates, however, that the mandate would not impose additional costs, and therefore, the annual threshold established in UMRA ($66 million in 2007, adjusted annually for inflation) would not be exceeded. The act contains no new private-sector mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1227 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit), 450 (community and regional development), and 600 (income security).

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN DIRECT SPENDING					
Eliminate Prohibition on Duplicate Benefits					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	450	550	250	-750	-500
New Orleans Recovery Authority Pilot Program					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	6	6	3	-15	0
Total Changes					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	456	556	253	-765	-500
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Repair and Rehabilitation					
Estimated Authorization Level	664	0	0	0	0
Estimated Outlays	113	199	199	133	20
Extension of Disaster Voucher Program (DVP)					
Estimated Budget Authority	45	0	0	0	0
Estimated Outlays	41	4	0	0	0
Tenant Replacement Vouchers for All Lost Units					
Estimated Authorization Level	42	0	0	0	0
Estimated Outlays	25	17	0	0	0
Voucher Assistance for Supportive Housing					
Estimated Authorization Level	37	38	39	40	41
Estimated Outlays	11	37	38	39	40
Transfer of DVP Vouchers to Voucher Program					
Estimated Authorization Level	97	92	86	82	77
Estimated Outlays	58	94	89	84	79
Treatment of Non-Conveyable Properties					
Estimated Budget Authority	224	0	0	0	0
Estimated Outlays	224	0	0	0	0
Fair Housing Initiatives Program					
Estimated Authorization Level	5	5	0	0	0
Estimated Outlays	2	4	3	1	0
Vouchers for FEMA-Assisted Households					
Estimated Authorization Level	222	323	300	283	267
Estimated Outlays	80	247	309	289	273
Total Changes					
Estimated Authorization Level	1,335	457	425	404	384
Estimated Outlays	554	602	638	545	412

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1227 will be enacted by the end of fiscal year 2007, and that the amounts necessary to implement the act will be appropriated for each year Components of the estimated costs are described below.

Direct Spending

CBO estimates that enacting H.R. 1227 would accelerate spending of existing funds. That change would increase direct spending by $456 million in 2008, but have no net effect over the 2008-2012 period.

Elimination of Prohibition on Duplication of Benefits. In 2005 and 2006, the Congress provided about $16.7 billion to HUD's Community Development Fund to aid the states of Louisiana, Mississippi, Texas, Alabama, and Florida following the 2005 Gulf Coast hurricanes (see Public Laws 109-148 and 109-234). From these amounts, HUD allocated $10.4 billion to Louisiana for various projects including the rebuilding of public infrastructure, business recovery loans, and homeowner and rental assistance. For such projects, HUD and the Louisiana Recovery Authority (LRA) developed procedures to prevent the duplication of benefits to individuals from other sources, such as claims payments from private hazard insurance or the National Flood Insurance Program, as required by current law. H.R. 1227 would allow the state of Louisiana to forgo this requirement with respect to benefits obtained from hazard insurance, flood insurance, and Federal Emergency Management Agency (FEMA) disaster payments. The Secretary of HUD would be directed to monitor expenditures resulting from this provision and reinstate the prohibition on duplication of benefits if such expenditures would exceed $1.25 billion. This cap would terminate at the end of 2012.

For this estimate, CBO assumes that LRA would eliminate the prohibition on the duplication of benefits and would no longer reduce benefits provided through its homeowner grant program by amounts received from other sources. As of April 2007, LRA has received over 123,000 grants for its homeowner grant program. Benefits have already been calculated for over 64,000 of these applicants, of which several thousand have already been paid. Based on information from HUD and the state, CBO estimates that the average benefit provided through this program would increase by about $20,000 under H.R. 1227 and that this increase would apply retroactively to grants already made. CBO expects that expenditures under the act would occur faster than anticipated under current law and that the $1.25 billion cap on additional benefits would be reached by 2010. Because this legislation would not appropriate any new funds for this activity, the acceleration of expenditures that would occur through

2010 would result in an equivalent decline in spending in the subsequent two years. As such, CBO estimates that this provision would cost $450 million in 2008, but would have no net effect over the next five years.

New Orleans Redevelopment Authority Pilot Program. H.R. 1227 would allocate $15 million from funds provided to HUD for the state of Louisiana to establish the New Orleans Redevelopment Authority Pilot Program. Such funds would be used to purchase individual parcels of land that, in turn, would be sold to private entities for development. CBO expects that expenditures for such a program would be slightly faster than would occur under current law. Because this legislation would not appropriate any new funds, such an acceleration of expenditures would result in a equivalent decline in expected outlays in later years. Thus, CBO estimates that this provision would cost $6 million in 2008, but would have no net effect over the 2008-2012 period.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 1227 would incur new discretionary costs of about $2.8 billion over the 2008-2012 period.

Authorization of Appropriations for Repair and Rehabilitation. Section 206 would authorize the appropriation of such sums as may be necessary for the repair, rehabilitation, and development of HANO's public housing units and for community and supportive services for the residents of those units. According to HUD, approximately 2,000 of HANO's 7,000 units of public housing have been repaired and are habitable. Using HUD's estimated development costs for the city of New Orleans, CBO estimates that repairing and rehabilitating the remaining 5,000 units of public housing would cost, on average, about $135,000 per unit (for a total of $676 million). According to HUD, HANO currently has $62 million available to spend on such units. Community and supportive services provided through HUD's HOPE VI program cost about $7,200 per unit. Assuming a similar cost per unit, CBO estimates that $51 million would be required to provide such services. Together, the provisions of section 206 would increase authorization levels by $664 million in 2008, and assuming appropriation of that amount, would result in additional outlays of $664 million over the 2008-2012 period.

Extension of Disaster Voucher Program. Section 301 would authorize the appropriation of such sums as may be necessary to provide assistance under the Disaster Voucher Program (DVP) through January 1, 2008.

Based on information provided by HUD, CBO estimates that the program could maintain an obligation rate of about $15 million per month for the first three months of fiscal year 2008, similar to the average monthly obligation rate for 2007. Assuming appropriation of the necessary amounts, CBO estimates that extending the program for three months would cost $41 million in 2008 and $45 million over the 2008-2012 period.

Tenant Replacement Vouchers for All Lost Units. Section 304 would authorize the appropriation of such sums as may be necessary for fiscal year 2008 to provide tenant replacement vouchers under section 8 of the United States Housing Act of 1937. Specifically, the provision would authorize tenant-based vouchers for all subsidized units that will not be put back into use for occupancy, less the number of previously awarded replacement vouchers for these units. Based on information provided by HUD, CBO estimates that approximately 5,000 vouchers would be authorized by this provision, at an average cost of about $8,800. Assuming appropriation of the necessary amounts, CBO estimates that providing such vouchers would cost $25 million in 2008 and $42 million over the 2008-2012 period.

Voucher Assistance for Supportive Housing. Section 305 would authorize the appropriation of such sums as may be necessary for 4,500 project-based housing vouchers to be used to house elderly families, persons with disabilities, or homeless persons in areas affected by Hurricanes Katrina and Rita. The state of Louisiana or its designee would receive 3,000 such vouchers. Based on cost data provided by HUD, CBO estimates that such vouchers would cost about $8,000 each in 2008. Assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $11 million in 2008 and $165 million over the 2008-2012 period.

Transfer of DVP Vouchers to Voucher Program. Section 306 would authorize the appropriation of such sums as necessary to provide tenant-based vouchers to households that are assisted through the Disaster Voucher Program at the program's expiration date. The authorization for such assistance would continue so long as the households are eligible for voucher assistance. Based on data provided by HUD, CBO estimates that approximately 12,300 families are currently assisted by the DVP at an average cost of $11,900 per year. Assuming that appropriations are increased accordingly, an annual voucher turnover rate of 8 percent, and that voucher recipients will begin paying about $3,700 per year in tenant contributions at the expiration of the DVP, CBO estimates that implementing this provision would cost $58 million in 2008 and $403 million over the 2008-2012 period.

Treatment of Non-Conveyable Properties. CBO estimates that implementing section 501 would cost $224 million in 2008 by authorizing FHA, subject to the availability of appropriations, to pay the full claims for and accept conveyance of properties that were either damaged or destroyed by Hurricanes Katrina or Rita. Such payments could be made only if there was no failure on the part of the lender to provide hazard insurance or flood insurance, to the extent that such insurance is required under federal law.

Under the Mutual Mortgage Insurance program, FHA provides mortgage insurance to protect lenders against the risk of default on mortgages made for single-family housing. If a borrower defaults on the mortgage, the lender then files a claim with FHA, who then compensates the lender based on the outstanding unpaid balance of the mortgage. Upon payment of the claim, FHA takes possession of the property and then eventually sells the property to recover some of the costs of such claims. Currently, FHA will generally only pay the claim and accept conveyance of the property if the property is in marketable condition to be sold. Where exceptions are made by FHA, repair costs are deducted from the mortgage insurance payment.

According to FHA, about 2,630 properties (with an average unpaid balance of $73,000 per property) would be eligible for full claims payments under the act. Currently, the mortgage payments for these properties are over five months delinquent, and no apparent corrective measures are being taken by the respective lenders. Thus, these properties are presumed to be in unmarketable condition. Furthermore, in the absence of this legislation, CBO expects those lenders would write off the outstanding debt associated with these properties in lieu of filing a claim with FHA, given that the cost of repairs to bring the properties back to marketable condition would most likely exceed the FHA claims payments.

Based on information from FHA, CBO estimates that the subsidy rate for the underlying loans on those 2,630 properties includes an estimated 10 percent default rate with a claims cost, net of recoveries, of about 14 percent of the unpaid balance on the mortgage. However, under this legislation, CBO estimates that nearly all 2,630 properties would default and FHA would be required to cover 100 percent of the loans' unpaid balances. Because these 2,630 properties would not be in marketable condition upon conveyance to FHA, most would eventually be sold for $1 to local governments, resulting in no significant net recoveries for FHA. CBO estimates that total net claims would cost $190 million.

In addition to the estimated $190 million in net claims cost, CBO estimates that FHA would pay some holding costs, including accrued interest on the properties and other transactional costs. According to FHA, such costs would increase the net claims payment by about 18 percent. Thus, CBO estimates that enacting this provision would cost a total of $224 million.

Because implementing this provision would change the expected cash flows associated with the FHA single-family loan guarantee program, paying additional claims and holding costs is considered to be a modification of existing federal loan guarantees. Under credit reform procedures, the costs of a loan modification are estimated on a net-present-value basis. Assuming that the act is enacted late in fiscal year 2007 and appropriations are provided for 2008, CBO estimates enacting this provision would cost $224 million in 2008. As noted above, the modification would only occur if such funds are provided in a future appropriations act.

Fair Housing Initiatives Program. Section 601would authorize the appropriation of $5 million for each of fiscal years 2008 and 2009 for HUD to make grants to states, localities, and nonprofit organizations for programs to prevent discriminatory housing practices in areas affected by Hurricanes Katrina and Rita. Assuming appropriation of the authorized amounts, CBO estimates that implementing this provision would cost $10 million over the 2008-2012 period.

Extension of FEMA Housing Assistance. Section 901 would authorize the appropriation of such sums as may be necessary to extend the period of eligibility for households affected by Hurricanes Katrina, Rita, and Wilma to receive direct and financial assistance under FEMA's temporary housing assistance program until the end of 2007. On April 26, 2007, FEMA announced that such assistance would be extended for those affected by the 2005 Gulf Coast hurricanes until March 2009—14 months later than the date specified in the bill. As such, CBO estimates that implementing this provision would have no effect on future assistance provided by FEMA, and thus would incur no additional cost.

Vouchers for FEMA-Assisted Households. Section 902 would authorize the appropriation of such sums as may be necessary to provide housing vouchers to families currently receiving financial housing assistance from FEMA or residing in trailers provided by FEMA. Families residing in trailers would be eligible for vouchers upon enactment and families receiving financial assistance would be eligible upon termination of their assistance in March 2009. As of March 2007, there were about 33,000 households receiving financial assistance and 86,000 households residing in FEMA trailers. About 20 percent of the families in trailers are located in group sites and 80 percent are located on private property. CBO estimates that roughly half of the 119,000 FEMA-assisted families would be eligible for housing vouchers under section 8 of the United States Housing Act of 1937. Based on information provided by HUD and industry representatives, CBO estimates that about 60 percent of those eligible would succeed in using a housing voucher. CBO expects such success to be higher than the national average for families currently receiving financial assistance from FEMA as many of those families could use the vouchers at their current residences. In contrast, voucher use for families currently residing in trailers would likely be much lower than the national average because of the extensive damage to the rental stock in the Gulf Coast area. Assuming that appropriations are increased accordingly, an annual voucher turnover rate of 8 percent, and an average annual voucher cost of about $8,600, CBO estimates that implementing this provision would cost $80 million in 2008 and $1.2 billion over the 2008-2012 period.

Other Provisions

In addition, H.R. 1227 also would:

- Authorize the use of up to $1.5 billion provided to Louisiana from FEMA's Hazard Mitigation Grant Program for activities approved by HUD under the terms of Louisiana's Road Home program;

- Authorize the use of about $5.2 billion appropriated to the Community Development Fund (see Public Law 109-234) as a matching requirement for other federal programs;

- Authorize the use of previously appropriated funds to reimburse communities that used Community Development Block Grant funding to provide rental housing assistance for hurricane evacuees;

- Authorize the use of previously appropriated funds to reimburse landlords for losses resulting from participation in FEMA's city lease program.

The Road Home program is the proposed plan for the $10.4 billion that was allocated to Louisiana through HUD's Community Development Fund for the 2005 Gulf Coast hurricanes. CBO anticipates similar expenditure patterns for both FEMA's Hazard Mitigation Grant Program and Road Home, and thus does not expect that reallocating funds between the programs would result in a significant acceleration of spending. As such, CBO estimates that enactment of this provision will have no significant net impact on the budget.

CBO expects that authorizing the use of Community Development Fund appropriations as a matching requirement for other federal programs would have no significant effect on overall program expenditures. Such use is typical of regular appropriations to this account and is also permissible for funds appropriated to the fund in Public Law 109-148 for the 2005 Gulf Coast hurricanes. Based on information from the agencies and from state and local governments, CBO expects that such new authorizations for previously appropriated funds would not have a significant effect on the pace of program expenditures. As such, CBO estimates that implementation of these provisions would have no net impact on the federal budget.

PREVIOUS CBO ESTIMATE

On March 15, 2007, CBO transmitted a cost estimate for H.R. 1227 as ordered reported by the House Committee on Financial Services on March 7, 2007. The House-passed version of the legislation differs from the previous version in a number of ways. Two provisions that would have resulted in direct spending in the previous version, the extension of the Disaster Voucher Program and the requirement for FHA to pay full claims for and accept conveyance of properties damaged or destroyed by Hurricanes Katrina or Rita, are subject to the availability of appropriations in the House-passed version. A third provision that would eliminate the prohibition on duplicate benefits for Louisiana's Road Home program (and thus increase the average size of a homeowner grant) is now capped at $1.25 billion.

In addition, the House-passed version includes a new title that would authorize appropriations to extend FEMA housing assistance and provide housing vouchers for families receiving temporary housing assistance form FEMA. In total, CBO's estimate of direct spending for H.R. 1227 as passed by the House is $469 million less than the previous version over the 2007-2012 period and the estimate for spending subject to appropriation is $1.5 billion higher.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1227 would require HUD to promulgate regulations that would establish priority and disqualification standards for households requesting occupancy in replacement units offered by the Housing Authority of New Orleans. Those regulations would preempt a state law that requires housing authorities in Louisiana to set standards for determining a household's eligibility for occupancy, as well as procedures for maintaining a waiting list of eligible households. That preemption would be considered an intergovernmental mandate as defined in UMRA; CBO estimates, however, that the mandate would not impose additional costs on state or local governments, and therefore, the threshold established in the act would not be exceeded.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The act contains no new private-sector mandates as defined in UMRA.

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